

Message Text

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PAGE 01 LIMA 04152 122338Z

ACTION ARA-14

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LAB-04 SIL-01 OMB-01 SS-15 STR-07 CEA-01 SSO-00

INRE-00 NSCE-00 ICAE-00 IO-13 DOE-15 SOE-02 /107 W

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C O N F I D E N T I A L LIMA 4152

E.O. 11652: GDS

TAGS: EFIN, PE

SUBJECT: PERU'S FINANCIAL CRISIS: FOCUS IS ON NEW YORK

REF: (A) LIMA 4106, (B) LIMA 4077

1. SUMMARY: FOLLOWING OPTIMISTIC STATEMENTS BY RETURNING FOREIGN MINISTER ON RESULTS WASHINGTON MEETINGS (REF A), ALL EYES ARE ON NEW YORK AS STEERING COMMITTEES REPORTEDLY CONSIDER PERUVIAN REQUEST FOR \$80-90 MILLION BRIDGE FINANCING. FOMNIN'S RETURN AND ANNOUNCEMENT OF NEW ECONOMIC MEASURES (REF B) HAVE BEEN FOLLOWED BY RUMORS OF IMMINENT CABINET CHANGES. WHILE U.S. BANKS DO JUGGLING ACT TO PREVENT GOP DEFAULT, STEERING COMMITTEES REPORTEDLY FACE "WEEK OF DECISION" ON FINANCING REQUEST. END SUMMARY.

2. REVAILING GLOOM IN BANKING CIRCLES HERE OVER FINANCIAL CRISIS WAS LIFTED SOMEWHAT BY FOREIGN MINISTER DE LA PUENTE'S OPTIMISTIC STATEMENTS ON RESULTS OF WASHINGTON MEETINGS. DE LA PUENTE GAVE FAVORABLE INTERPRETATION TO IMF STATEMENT (STATE 119934), AND IMPLIED THAT PRIVATE BANKS WERE NOW FAVORABLY DISPOSED TO ASSIST PERU. HE ALSO SAID THAT RECENT ECONOMIC MEASURES OPENED THE DOOR TO A RENEGOTIATION WITH THE FUND, AND WERE APRELUDE TO A GENERAL RESTRUCTURING OF PERU'S FOREIGN DEBT, BOTH PUBLIC AND PRIVATE.

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PAGE 02 LIMA 04152 122338Z

3. BANKERS HERE ARE NOW AWAITING WITH THE GREATEST INTEREST THE RESULTS OF THE GOP'S NEGOTIATIONS WITH THE U.S. AND INTERNATIONAL STEERING COMMITTEES IN NEW YORK. THE WEEK OF MAY 15 IS NOW BEING DESCRIBED AS THE "WEEK OF DECISION" AS U.S. AND FOREIGN BANKS CONSIDER PERUVIAN REQUEST FOR 3-6 MONTH ROLLOVER ON PUBLIC SECTOR MATURITIES. THE THINKING

HERE IS THAT THE FOREIGN BANKS WILL COMPE UP WITH A COUNTER-PROPOSAL ACCEPTABLE TO THE PERUVIANS WHICH WILL INVOLVE A MORE LIMITED ROLLOVER WITH FURTHER EXTENSION OF MATURITIES DEPENDENT ON A JUNE ANNOUNCEMENT BY THE GOP OF NEEDED AUSTERITY MEASURES --E.G. INCREASED GASOLINE PRICES AND A REDUCTION IN SUBSIDIES FOR FOODSTUFFS. AT LEAST ONE U.S. BANK (CITICORP) WILL PRESS FOR INTRODUCTION OF POSITIVE INTEREST RATES AS PART OF PACKAGE. PACKAGE WILL ALMOST CERTAINLY BE ACCOMPANIED BY ACROSS-THE-BOARD WAGE INCREASE FOR PERUVIAN WORKERS.

4. MEANWHILE LIMA'S FAMOUS RUMOR MILL IS GRINDING EXCEED-ING FAST WITH REGARD TO "IMMINENT" CABINET CHANGES. FRONT-RUNER FOR THE MINISTRY OF ECONOMY AND FINANCE IS JAVIER SILVA RUETE, FORMER MINISTER OF AGRICULTURE LONG-TIME CNETRAL BANK BANK ADVISOR AND ONE OF THE FOUNDERS OF THE ANDEAN PACT--MOST RECENTLY SERVING AS COORDINATOR TO THE ANDEAN DEVELOPMENT FUND (CAF). MANUEL MOREYRA, WHO WAS IN WASHINGTON EARLIER THIS WEEK WITH FONMIN, AND WHOSE BACKGROUND IS PRINCIPALLY AS CENTRAL BANKER AND PRIVATE LAWYER, IS RUMORED TO REPLACE GERMAN DELA MELENA AS CENTRAL BANK PRESIDENT. GABRIEL LANATTA, FORMERLY CHIEF EXECUTIVE OFFICER OF THE BANCO INDUSTRIAL AND NOW HEAD OF THE PILSEN BREWERY HERE, IS RUMORED TO REPLACE GEN. GSTON IBANEZ 9'BRIEN IN THE "SUPER-MINISTRY" OF INDUSTRY, COMMERCE , INEGRATION, CONFIDENTIAL

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PAGE 03 LIMA 04152 122338Z

AND TOURISM. OTHER CABINET CHANGES ARE ALSO RUMORED, INVOLVING INTERIOR, HEALTH, AND EDUCATION. WHATEVER THE VALITY OF THE RUMORS THEY DO REFLECT THE FEELING OF UNCERTAINTY PREVALENT IN LIMA THESE DAYS.

5. ON THE INTERNATIONAL FINANCIAL SCENE, AT LEAST ONE U.S. BANK HAS REPORTEDLY DONE A REAL BALANCING ACT IN RECENT DAYS TO PREVENT A FORMAL GOP DEFAULT. WE ARE TOLD ON VERY GOOD AUTHORITY THAT CARLOS RODRIGUEZ-PASTOR, INTERNATIONAL VICE PRESIDENT OF WELLS FARGO, DISCOVERED THE GOP IN DEFAULT ON AN \$11 MILLION OBLIGATION TO REGIONAL BANKS, AND QUICKLY OBTAINED A \$25 MILLIO TRANSFER FROM OCCIDENTAL PETROEUM TO COVER THE DEFAULT--REMITTING THE REMAINING \$14 TO THE CENTRAL BANK OF PERU. PERUVIAN HAD ASKED OXY FOR THE \$35 MILLION ADVANCE DEPOSIT TO COVER FUTURE OPERATIONAL EXPENSES IN JUNGEL OIL FIELD DEVELOPMENT, BUT OXY DID NOT COMPLY WITH GOP REQUEST UNTIL ENCOURAGED TO DO SO BY WELLS FARGO TO PREVENT FORMAL DEFAULT, WE ARE TOLD. MEANWHILE, CENTRAL BANK CONTINUES TO SCRAMBLE TO MEET DAY-TOD-DAY FOREIGN OBLIGATIONS.

6. COMMENT: CONSENSUS HERE IS THAT U.S. AND FOREIGN

COMMERICAL BANKS WILL IN FACT DECIDE TO ROLL OVER GOP
DEBTS FOR 30-60 DAYS AND THUS EASE THE FINANCIAL CRUNCH AT
LEAST FOR A WHILE. THAT MOVE WOULD PUT BALL SQUARELY
BACK IN GOP COUNRT WITH RESPECT TO ANNOUNCEMENT OF NEEDED
AUSTERITY MEASURES IN PERIOD FOLLOWING FORTHCOMING
ELECTIONS.
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